

**Supporting Statement for
Financial Statements filed by Bank Holding Companies
(FR Y-9C, FR Y-9LP, FR Y-9SP, FR Y-9CS and FR Y-9ES; OMB No. 7100-0128)**

Summary

The Board of Governors of the Federal Reserve System, under delegated authority from the Office of Management and Budget (OMB), proposes to revise, without extension, the following mandatory reports (OMB No. 7100-0128), for implementation for with the March 2004 reporting date:

- (1) the Consolidated Financial Statements for Bank Holding Companies (FR Y-9C),
- (2) the Parent Company Only Financial Statements for Large Bank Holding Companies (FR Y-9LP),
- (3) the Parent Company Only Financial Statements for Small Bank Holding Companies (FR Y-9SP), and
- (4) the Financial Statements for Employee Stock Ownership Plan Bank Holding Companies (FR Y-9ES).

This family of reports (OMB No. 7100-0128) also contains the Supplement to the Consolidated Financial Statements for Bank Holding Companies (FR Y-9CS), which is not being revised.

Pursuant to the Bank Holding Company Act of 1956, as amended, the Federal Reserve requires bank holding companies (BHCs) to provide standardized financial statements to fulfill the Federal Reserve's statutory obligation to supervise these organizations. BHCs file the FR Y-9C and FR Y-9LP quarterly, the FR Y-9SP semiannually, the FR Y-9ES annually, and the FR Y-9CS on an event-generated basis.

The Federal Reserve will modify proposed revisions to the FR Y-9 reports consistent with any revisions to the Federal Financial Institutions Examination Council (FFIEC) Consolidated Reports of Condition and Income (Call Reports) (FFIEC 031 & 041; OMB No.7100-0036) proposed by the FFIEC for implementation in 2004. Copies of the proposed reporting forms, marked to show the revisions, are provided in the attachment. The total current annual burden for the FR Y-9 family of reports is estimated to be 368,521 hours. The overall reporting burden is estimated to increase by 592 hours with these revisions.

Background and Justification

The FR Y-9 series of reports (FR Y-9C, FR Y-9LP, and FR Y-9SP) are standardized financial statements for the consolidated BHC and its parent. The FR Y-9ES is filed annually by BHCs that are Employee Stock Ownership Plans (ESOPs). The Board also has the authority to use the FR Y-9CS, a free form supplement, to collect any additional information deemed to be critical and needed in an expedited manner. The FR Y-9 reports historically have been, and continue to be, the primary source of financial information on BHCs between on-site inspections. Financial information from these reports is used to detect emerging financial problems, to review performance and conduct pre-inspection analysis, to monitor and evaluate capital adequacy, to evaluate BHC mergers and acquisitions, and to analyze a BHC's overall financial condition to ensure safe and sound operations.

In addition to providing information used in the supervision of BHCs, the FR Y-9 series of reports provide essential information to assist the Board in the formulation of regulations and supervisory policies. The data are also used by the Board to respond to requests from Congress and the public for information on BHCs.

Description of the Information Collection

FR Y-9C

The FR Y-9C consists of standardized financial statements similar to the Call Report filed by commercial banks. The FR Y-9C collects consolidated data from the BHC. The FR Y-9C is filed by top-tier BHCs with total consolidated assets of \$150 million or more¹ and lower-tier BHCs that have total consolidated assets of \$1 billion or more. In addition, multibank holding companies with total consolidated assets of less than \$150 million with debt outstanding to the general public or engaged in certain nonbank activities must file the FR Y-9C.

Proposed Revisions Effective March 31, 2004

Voluntary Advance Collection of Summary FR Y-9C Data from the Largest BHCs

The Federal Reserve proposes to incorporate into the FR Y-9C information collection the advance collection of key FR Y-9C summary items from selected institutions of up to fifty of the largest BHCs. These data would be collected in advance of the regular FR Y-9C filing deadline on a voluntary, as-needed basis. The Federal Reserve relies primarily on the quarterly earnings press releases published by these institutions to perform analysis of the largest BHCs – individually and in aggregate – weeks before FR Y-9C filings become available. However, pronounced and sustained differences have appeared between aspects of these published results and the FR Y-9C data at many of these institutions. The nature of these differences appears to be specific to each institution, related to the manner in which the institution chooses to present its results. The presence of such differences impairs the Federal Reserve’s ability to analyze aggregates and make meaningful comparisons across institutions.

The Federal Reserve has addressed these differences by obtaining preliminary or estimated FR Y-9C information from affected institutions on a voluntary basis through informal dialog after the press releases have been issued. These cases were highly individualized, in which selected institutions were generally asked to provide preliminary information on a variety of FR Y-9C items. However, over the past year a growing range of items with differences has emerged at a significantly larger set of these institutions, and indeed for some items (e.g., earning assets) there have been significant differences for a major share of these largest institutions.

¹ Under certain circumstances defined in the General Instructions, BHCs under \$150 million may be required to file the FR Y-9C.

Obtaining these selected, institution-specific preliminary data allows the Federal Reserve to evaluate meaningfully the financial condition and performance of the largest banking institutions, to discern and monitor emerging trends and issues (such as credit quality) in the banking industry, and to analyze these data in a timely manner. The Federal Reserve is willing to accept preliminary or estimated data from the institution in the interest of minimizing burden. In general, the data requested are supplemental to those published in press releases and are routinely contained in a firm's management information systems.

The items requested are primarily summary items such as total noninterest expense or total loans, and a few individual line items such as total trading revenue. The number of items collected varies from respondent to respondent according to the nature of the item, its relevance to the institution, and the basis of presentation used in the BHC's press release. However, any changes to this information collection would not exceed the estimated average burden of 30 minutes per respondent.

The advance information is collected by the Federal Reserve in the manner most convenient to the institution, mainly through electronic mail, telephone, or facsimile transmission. Reporting instructions would not be required because the requested financial items are defined in the FR Y-9C instructions. The advance information collected would be used only within the Federal Reserve System and would not be made available to the public.

Cover Pages

The Federal Reserve proposes to modify the contact information on the cover page of the FR Y-9C, FR Y-9LP, and FR Y-9SP reports to include the email address of the person to whom questions about this report should be directed. Collection of the email address would enhance communications between the Federal Reserve Bank staff and the respondent.

Schedule HC – Balance Sheet

The Federal Reserve proposes to modify the definition of Schedule HC, Balance Sheet, item 20, "Other liabilities," and Schedule HC-G, Other Liabilities, item 4, "Other," to include information on trust preferred securities. This information would no longer be included in Schedule HC, item 22, "Minority interest in consolidated subsidiaries and similar items." The proposed reporting change would be consistent with the manner in which trust preferred securities are presented for other public reporting purposes. In addition a footnote would be added to the form for item 20 stating that this item "Includes guaranteed preferred beneficial interests in the bank holding company's junior subordinated debt securities (trust preferred securities)." The footnote would clarify that trust preferred securities information included in other liabilities is comparable to information reported under this caption in other public financial reports, such as the Securities and Exchange Commission (SEC) Form 10-K.

This proposed reporting change does not represent any change to the risk-based capital treatment for trust preferred securities. Consistent with guidance previously provided in Federal Reserve Supervisory Letter SR 03-13 of July 2, 2003, BHCs should continue to include eligible trust preferred securities in their tier 1 capital for regulatory capital purposes. The amounts

qualifying for inclusion in tier 1 capital should be reported in Schedule HC-R, item 6, in accordance with the reporting instructions. The Federal Reserve will review the regulatory implications of any accounting treatment changes affecting trust preferred securities and, if necessary or warranted, will provide further appropriate guidance.

Schedule HC-M—Memoranda

In order to promote public awareness of risk disclosures, and to enhance the ability of the public to readily access this information, the Federal Reserve proposes to add to Schedule HC-M, a new Memorandum item 22, “URL for the reporting bank holding company’s web page that displays risk disclosures, including those about credit and market risk.” This item would be updated on a quarterly basis, if applicable. The Federal Reserve has long supported greater market discipline and enhanced risk disclosures by banking organizations to achieve that objective. The Federal Reserve Board, in cooperation with the U.S. Securities and Exchange Commission (SEC) and the Office of the Comptroller of the Currency, sponsored the Working Group on Public Disclosure (the Working Group) in April 2000, which was asked to provide recommendations for improved public disclosures. The Working Group issued six recommendations in January 2001 for enhanced disclosure of market and credit risk and the Federal Reserve issued an SR letter that strongly encouraged large banking organizations to adopt these recommendations. Some large banking organizations have since adopted them. Because the Working Group recommendations focus on large banking organizations, the Federal Reserve proposes to collect the URL from large banking organizations with total assets of \$30 billion or more that provide risk disclosures on their web site. The Federal Reserve would provide to the public the web address, which would link directly to the risk disclosure information on the large banking organization’s web site or to a table that cross-references to the location of the disclosures. For example, this information would likely be found in the risk management disclosure in management’s discussion and analysis (MD&A) of large BHCs Form 10-K and Form 10-Q filed with the SEC and usually available on the BHC’s website.

Schedule HC-R—Regulatory Capital

The Federal Reserve proposes to make the following changes to Schedule HC-R, Regulatory Capital.

1. Remove the caption for memoranda item 3.a, “Perpetual preferred stock eligible for inclusion in Tier 1 capital:” and modify the caption for memoranda item 3 to read “Preferred stock (including related surplus) eligible for inclusion in Tier 1 capital:.”
2. Renumber memoranda item 3.a(1) as item 3.a and modify the caption to include a clarifying parenthetical note. The caption would read “Noncumulative perpetual preferred stock (included and reported in “Total equity capital,” on Schedule HC).”
3. Renumber memoranda item 3.a(2) as item 3.b and modify the caption to include a clarifying parenthetical note. The caption would read “Cumulative perpetual preferred stock (included and reported in “Total equity capital,” on Schedule HC).”
4. Modify current memoranda item 3.b, “Cumulative preferred stock (e.g., trust preferred securities) included and reported in ‘Minority interest in consolidated subsidiaries and similar items,’ on Schedule HC” and renumber as 3.d. The revised caption would read

“Other cumulative preferred stock eligible for inclusion in Tier 1 capital (e.g., trust preferred securities) (included in Schedule HC, items 20 or 22).” This item would include trust preferred stock eligible for Tier 1 capital that is issued out of a special purpose subsidiary for which the bank holding company is the sole common shareholder, and that is reflected in Schedule HC, item 20, “Other liabilities.” This item would also include any other cumulative preferred stock included in Schedule HC, item 22, “Minority interest in consolidated subsidiaries and similar items.”

5. Add a new memoranda item 3.c, “Other noncumulative preferred stock eligible for inclusion in Tier 1 capital (e.g., REIT preferred securities) (included in Schedule HC, item 22).”

The Federal Reserve proposes the first three changes to clarify existing items and proposes the fourth change for consistency with the proposed changes to Schedule HC, Balance Sheet, on trust preferred securities. The Federal Reserve proposes the fifth change, the addition of new memoranda item 3.c, to collect information on real estate investment trust (REIT) preferred securities. REIT preferred securities are a type of innovative capital instrument typically issued from a special purpose subsidiary at the bank level. Qualifying REIT preferred securities may be included in bank Tier 1 capital with a limit of up to 25 percent of Tier 1. Currently no data are collected for REIT instruments on financial reports at either the bank or BHC level. Therefore the Federal Reserve does not have comprehensive information on the amount of these instruments in banks’ or BHCs’ capital structures. The Federal Reserve has learned through available anecdotal information that a number of large banking organizations have made issuances of over \$500 million. This item would also include any other noncumulative preferred stock included in Schedule HC, item 22, “Minority interest in consolidated subsidiaries and similar items.”

Instructions

Instructional revisions and clarifications will be made to FR Y-9C, FR Y-9LP, FR Y-9SP, and FR Y-9ES, as necessary, in an attempt to achieve greater consistency in reporting by respondents.

Proposed Revisions Effective September 30, 2004 and December 31, 2004

Editing of Data by Respondents

The Federal Reserve proposes to require data validation checks to be performed by respondents as a condition for the accepted filing of the FR Y-9 reports (except for the FR Y-9CS). Implementation of this requirement is targeted as of the September 30, 2004, reporting date for FR Y-9C and FR Y-9LP respondents, and as of the December 31, 2004, reporting date for FR Y-9SP and FR Y-9ES respondents. The proposed changes are also consistent with the proposed data validation process for the Call Report, also targeted for September 2004.

Currently, after the Federal Reserve receives a bank holding company (BHC) report, it is subjected to edit checks to assess the accuracy and reasonableness of the data submitted. “Validity” edits verify the accuracy of reported data, for example, whether the individual items in a report schedule add up to the reported total or whether an item reported in one schedule

agrees with the amount reported for an equivalent item in another schedule. Validity edits include mathematical and logical tests. “Quality” edits test the reasonableness of data and include tests using historical data and other relational tests, for example, whether the amount reported for a year-to-date item is greater than or equal to the amount reported for the same item in the previous quarter or whether the fair value reported for a category of securities falls within a specified range of the amortized cost reported for these securities. Also certain quality or “interseries” edits compare data reported on parent-only statements (FR Y-9LP) and data reported on the consolidated bank holding company statements (FR Y-9C) ².

If this validation process identifies any edit exceptions in a BHC’s report, a Federal Reserve analyst may contact the BHC and explain the edit exceptions detected in the BHC’s report. The BHC then reviews the reported data associated with these edit exceptions and provides the Federal Reserve analyst with any necessary corrections or describes the underlying facts and circumstances that explain why the data are correct as reported.

Under this proposal, the validation process will take place in conjunction with a BHC’s submission of its FR Y-9 reports. The Federal Reserve’s internet-based data collection system will subject a respondent’s electronic data submission, whether by data entry or by file transfer, to published validity and quality edit checks and transmit the results of such checks to the respondent³. Companies that offer computer software to aid in the preparation of FR Y-9 reports or BHCs that have developed their own reporting software may also choose to incorporate validity and quality edit checks into their software. Thus edit exceptions will be identified while a BHC is preparing its report or during the submission process. The BHC will then be expected to correct its report data to eliminate any validity edit exceptions. The BHC will also be provided a method for supplying explanatory comments concerning quality edit exceptions. The Federal Reserve would not accept any submission as fulfilling reporting requirements or meeting the filing deadline that fails any validity edits or lacks explanatory comments concerning any quality edit exceptions⁴.

Because a BHC will be made aware of any edit exceptions while its staff is completing its FR Y-9 report, the BHC will respond to these exceptions immediately rather than after-the-fact as it is under the Federal Reserve’s current method. Although BHCs will still have to provide explanations to support data that trigger quality edit exceptions, this change should reduce subsequent questions from the Federal Reserve about these edits. The Federal Reserve will continue to treat BHCs explanatory comments that address any quality exceptions as confidential. Overall the proposed requirements are expected to improve the timeliness and quality of BHC data, enhance market discipline through faster access by the public, and utilize technological advances in an efficient manner.

² A list of validity and quality edits (including interseries edits) is located at the end of the instructions to the FR Y-9 reports (except for the FR Y-9CS), and validity edits are currently distributed to respondents in the form of a Reports Monitoring Checklist.

³ Note that due to interseries comparisons between the FR Y-9LP and the FR Y-9C, the FR Y-9LP cannot be processed until the FR Y-9C is accepted.

⁴ The data collection system will provide for acceptance of data that in rare situations may fail a validity edit due to unusual circumstances but have been identified as accurate.

Reporting Panel

There are no revisions proposed to the reporting panels of the reports.

Frequency

There are no changes proposed to the reporting frequency of the reports. The current reporting frequencies provide adequate timely data to meet the analytical and supervisory needs of the Federal Reserve.

Time Schedule for Information Collection

The FR Y-9C and FR Y-9LP are reported quarterly as of the end of March, June, September, and December. The proposed preliminary Top 50 BHC data would be collected each quarter after that BHC has issued its quarterly earnings press release. The FR Y-9SP is reported semiannually as of the end of June and December. For the June 30, 2004, September 30, 2004, and March 31, 2005, reporting dates, the FR Y-9C report for top-tier BHCs must be submitted to the appropriate Federal Reserve Bank within forty days after the report date. Beginning with the June 30, 2005, reporting date the filing deadline for top-tier BHCs will be thirty-five days after the report date. The annual December 31 FR Y-9C filing deadline for top-tier BHCs will remain at forty-five days after the report date. FR Y-9C, FR Y-9LP and FR Y-9SP reports for lower-tier BHCs must be submitted to the appropriate Federal Reserve Bank within forty-five days after the date of the report. The annual FR Y-9ES is collected as of December 31 and submitted to the Federal Reserve Banks by July 31, unless an extension is granted for filing by October 15.

The data from the FR Y-9 series of reports that are not given confidential treatment are available to the public on the FFIEC website (www.ffiec.gov/nic) and through the National Technical Information Service (NTIS).

Legal Status

The Board's Legal Division has determined that these reports are authorized by Section 5(c) of the Bank Holding Company Act [12 U.S.C. 1844(c)].

Overall, the Board does not consider the data in these reports to be confidential. However, a BHC may request confidential treatment pursuant to section (b)(4) of the Freedom of Information Act [5 U.S.C. 552(b)(4)]. Also the proposed preliminary collection of selected FR Y-9C data from top 50 BHCs would be considered confidential.

Estimates of Respondent Burden

The current estimated annual reporting burden for the FR Y-9 series of reports is 368,521 hours and would increase by approximately 592 hours to 369,113 hours as shown in the table below. This is due to an increase in the FR Y-9C average hours per response resulting from the redefinition of three items (with respect to the reporting treatment of trust preferred securities) and the net addition of one new item (on real estate investment trust preferred securities). The

preliminary collection of selected FR Y-9C data would affect less than fifty respondents. For this subset, the preliminary collection would impose approximately thirty minutes per respondent; however, based on the total number of respondents this would not significantly increase the average hours per response. The total burden for the FR Y-9 series of reports represents less than 4 percent of total Federal Reserve System annual burden.

	<i>number of respondents</i>	<i>annual frequency</i>	<i>estimated average hours per response</i>	<i>estimated annual burden hours</i>
<i><u>Current</u></i>				
FR Y-9C	2,113	4	34.73	293,538
FR Y-9LP	2,455	4	4.75	46,645
FR Y-9SP	3,312	2	4.09	27,092
FR Y-9ES	92	1	0.50	46
FR Y-9CS	600	4	0.50	<u>1,200</u>
<i>total</i>				368,521
<i><u>Proposed</u></i>				
FR Y-9C	2,113	4	34.80	294,130
FR Y-9LP	2,455	4	4.75	46,645
FR Y-9SP	3,312	2	4.09	27,092
FR Y-9ES	92	1	0.50	46
FR Y-9CS	600	4	0.50	<u>1,200</u>
<i>total</i>				369,113
<i>change</i>				+ 592

Based on an average hourly cost of \$20, the estimated current annual cost to the public is \$7,370,420, and the estimated annual cost to the public for filing the proposed reports would be \$7,382,260.

Estimate of Cost to the Federal Reserve System

The estimated cost to the Federal Reserve System for collecting and processing these reports will be obtained.

Consultation Outside the Agency

There has been no consultation outside the Federal Reserve System.

Sensitive Questions

This collection of information contains no questions of a sensitive nature, as defined by OMB guidelines.